

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Spencer County School District (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Spencer County School District (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Spencer County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Spencer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to and authorized the establishment of the Spencer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the Corporation) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 42. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- (B) The Day Care Fund is used to account for day care revenues.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

The property tax rates assessed for the year ended June 30, 2004, to finance the General Fund operations were \$.523 per \$100 valuation for real property, \$.523 per \$100 valuation for business personal property and \$.560 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting – The District's budgetary process accounts for certain transactions on a basis other than Accounting Principles Generally Accepted in the United States (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of materials or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2004.

Cash and Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2004 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B--ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE C--CASH AND EQUIVALENTS

At June 30, 2004, the carrying amount of the District's total cash and cash equivalents was \$16,311,352. Of the total cash balance, \$13,762,243 is deposited in a money market account to be used for construction. Of the total cash balance, \$100,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2004 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Peoples Bank	\$ 2,672,851	\$ 2,549,109
Wachovia	<u>13,757,902</u>	<u>13,762,243</u>
	<u>\$ 16,430,753</u>	<u>\$ 16,311,352</u>

Breakdown per financial statements:

Governmental funds	\$ 15,976,322
Proprietary funds	98,950
Agency funds	<u>236,080</u>
	<u>\$ 16,311,352</u>

NOTE D--CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Land	\$ 316,383	-	\$ -	\$ 316,383
Buildings and improvements	12,467,857	-	7,064	12,460,793
Technology equipment	997,730	255,579	308,943	944,366
Rolling stock	21,240	-	-	21,240
Audio-visual equipment	46,666	6,979	10,931	42,714
Other general equipment	53,387	10,279	2,026	61,640
Vehicles	1,481,598	171,774	178,620	1,474,752
Construction in process	-	<u>865,052</u>	-	<u>865,052</u>
Totals at historical cost	<u>15,384,861</u>	<u>1,309,663</u>	<u>507,584</u>	<u>16,186,940</u>

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE D--CAPITAL ASSETS--CONTINUED

<u>Governmental Activities</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Less: accumulated depreciation				
Buildings and improvements	\$ 2,990,846	\$ 247,843	\$ 141	\$ 3,238,548
Technology equipment	731,500	154,970	254,467	632,003
Rolling stock	15,531	726	-	16,257
Audio-visual equipment	12,621	3,223	3,521	12,323
Other general equipment	37,821	4,187	1,603	40,405
Vehicles	<u>977,317</u>	<u>87,991</u>	<u>175,380</u>	<u>889,928</u>
Total accumulated depreciation	<u>4,765,636</u>	<u>498,940</u>	<u>435,112</u>	<u>4,829,464</u>
Governmental Activities:				
Depreciable Capital Assets – Net	10,302,842	(54,329)	72,472	10,176,041
Non-depreciable Capital Assets	<u>316,383</u>	<u>865,052</u>	<u>-</u>	<u>1,181,435</u>
Total	<u>\$10,619,225</u>	<u>\$ 810,723</u>	<u>\$ 72,472</u>	<u>\$ 11,357,476</u>
 <u>Business-Type Activities</u>				
Food service and equipment	\$ 313,825	\$ -	\$ -	\$ 313,825
Technology equipment	<u>24,682</u>	<u>-</u>	<u>9,431</u>	<u>15,251</u>
Totals at historical cost	<u>338,507</u>	<u>-</u>	<u>9,431</u>	<u>329,076</u>
Less accumulated depreciation				
Food service equipment	160,967	19,618	-	180,585
Technology equipment	<u>18,441</u>	<u>1,949</u>	<u>9,431</u>	<u>10,959</u>
Total accumulated depreciation	<u>179,408</u>	<u>21,567</u>	<u>9,431</u>	<u>191,544</u>
Business-Type Activities:				
Depreciable Capital Assets-Net	<u>\$ 159,099</u>	<u>\$ (21,567)</u>	<u>\$ -</u>	<u>\$ 137,532</u>

Depreciation was charged to governmental functions as follows:

Food service equipment	\$ 376,377
Student support	2,555
Instructional staff	7,592
District administration	19,995
School administration	2,410
Plant operation and maintenance	2,021
Student transportation	<u>87,990</u>
	<u>\$ 498,940</u>

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE E--BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2004	\$13,860,000	3.00% - 5.00%
2003	\$ 830,000	1.50% - 3.50%
1999	\$ 9,105,000	4.40% - 4.50%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Spencer County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2004 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Spencer County School District</u>		<u>Kentucky School Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004-2005	\$ 576,160	\$ 631,645	\$ 193,840	\$ 122,626	\$ 1,524,271
2005-2006	637,462	872,257	227,538	144,766	1,882,023
2006-2007	558,743	848,833	336,257	136,045	1,879,878
2007-2008	684,674	824,386	245,326	127,117	1,881,503
2008-2009	710,003	798,142	249,997	117,646	1,875,788
2009-2010	736,229	770,106	223,771	107,797	1,837,903
2010-2011	770,793	739,111	224,207	99,093	1,833,204
2011-2012	800,611	706,129	224,389	90,359	1,821,488
2012-2013	835,685	671,835	229,315	81,373	1,818,208
2013-2014	870,350	635,693	239,650	72,456	1,818,149
2014-2015	909,907	597,602	185,093	62,917	1,755,519
2015-2016	949,524	556,706	185,476	52,242	1,743,948
2016-2017	994,475	513,366	195,525	43,872	1,747,238
2017-2018	1,038,712	467,901	201,288	34,993	1,742,894
2018-2019	1,091,346	418,780	213,654	25,721	1,749,501
2019-2020	1,145,817	360,943	54,183	15,782	1,576,725
2020-2021	1,203,043	304,446	56,957	13,004	1,577,450
2021-2022	1,250,122	235,417	59,878	10,083	1,555,500
2022-2023	1,307,052	171,488	62,948	7,012	1,548,500
2023-2024	1,373,823	104,466	66,177	3,784	1,548,250
2024-2025	1,402,407	-	42,593	36,125	1,481,125
	<u>\$ 19,846,938</u>	<u>\$ 11,229,252</u>	<u>\$ 3,718,062</u>	<u>\$ 1,404,813</u>	<u>\$ 36,199,065</u>

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE F--CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2004</u>
Buses	\$ 171,774

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2004:

<u>Year Ending June 30</u>	<u>Capital Lease Payable</u>
2005	\$ 24,409
2006	24,068
2007	20,659
2008	20,625
2009 and beyond	<u>117,317</u>
	207,078
Less: Amount representing interest	<u>28,866</u>
Present value of net minimum lease payments	178,212
Current portion	<u>19,140</u>
Non-current portion	<u>\$ 159,072</u>

NOTE G--COMMITMENTS

Leases

Commitments under operating lease agreements for office equipment provide for minimum future rental payments as of June 30, 2004 as follows:

<u>Year Ending June 30</u>	
2005	\$ 23,648
2006	20,448
2007	14,958
2008	<u>3,218</u>
Total minimum payments	<u>\$ 62,272</u>

Rent expense for the year ended June 30, 2004 was \$39,198.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE G--COMMITMENTS--CONTINUED

Other

The Board has approved a construction facilities plan for a new middle school designed to house 800 student, grades 6-8, with an estimated completion cost of \$14.5 million.

NOTE H--RETIREMENT PLANS

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

Certified employees are covered under KTRS. Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, and public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 7.34% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was approximately \$9,925,000. The payroll for employees covered under KTRS was approximately \$7,314,000 and for CERS was approximately \$2,611,000.

The contribution requirement for CERS for the year ended June 30, 2004 was \$322,276, which consisted of \$191,679 from the Board and \$130,597 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE H--RETIREMENT PLANS--CONTINUED

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS <u>June 30, 2003</u>	CERS <u>June 30, 2003</u>
Assets available for benefits, at fair value	\$ 13,863,786,000	\$ 5,286,580,047
Pension benefit obligation	<u>16,594,781,000</u>	<u>4,417,597,802</u>
(Unfunded) overfunded benefit obligation	<u>\$ (2,730,995,000)</u>	<u>\$ 868,982,245</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2003 comprehensive annual financial reports. The report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(b), 401(k) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowed by law. The District does not contribute to these plans.

NOTE I--CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the Board for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The Spencer County School District is also subject to other legal proceedings and claims that have risen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters and the proceedings disclosed above, it is the opinion of the school district's management based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Spencer County School District.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE J--INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies that are retrospectively rated which include Workers' Compensation insurance.

NOTE K--RISK MANAGEMENT

The District is exposed to various risk of loss related to injuries to employees. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Educational Development Corporation. The District pays an annual premium to the fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminates coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Board's Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L--DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Special Revenue Fund	\$ 77,405
Construction Fund	901,886
Debt Service Fund	402,235

NOTE M--COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004

NOTE N--TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 77,405
Debt Service	SEEK	Debt Service	Debt Service	153,078
Debt Service	FSPK	Debt Service	Debt Service	464,804
Operating	FSPK	Construction	Construction	1,111,951
Operating	General	Day Care	Operations	27,784

NOTE O--ON-BEHALF PAYMENTS

For the year ended June 30, 2004 total payments of \$959,999 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded as unallocated revenue and expense on the statement of activities.